



# Good News for Defaulted Borrowers

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## What is default?

Default is the failure to repay your loan according to the terms in your promissory note. When you signed your promissory note and received your student loan, you made a legal commitment to repay the loan, even if you did not complete or are not satisfied with your education.

When you did not make a payment by your due date, your loan became delinquent. When the delinquency reached 180 or 270\* days, your loan went into default status, and the Missouri DHE Student Loan Program purchased your loan to collect the money you owe. You are now responsible for paying the full amount of your loan, plus interest and collection costs.

\*Depending on the first day of delinquency on your oldest outstanding payment

## What are my options?

You have several options if you have defaulted on your student loan. Talk to the MDHE Information Center or the collection agency assigned to your account to determine what is best for you, based on your goals.

- 1. Repay your loan in full:** Contact the MDHE Information Center at (800) 473-6757, option 1 or the collection agency assigned to your account to obtain your payoff amount.
- 2. Rehabilitate your loan:** Loan rehabilitation removes your student loan from default status, restoring your eligibility for deferment, forbearance, and student financial aid. It also removes the default status from your credit report.

After you make at least 12 satisfactory payments (see other side), the Missouri DHE Student Loan Program can sell your loan to a secondary market or loan holder. Do not stop making satisfactory payments until the Missouri DHE Student Loan Program notifies you that your loan has been rehabilitated. The Missouri DHE Student Loan Program may require you to authorize rehabilitation in writing. When you rehabilitate your defaulted loan, the Missouri DHE Student Loan Program will reduce your collection costs to 18.5 percent of your outstanding principal and interest balance.

- 3. Reinstate your eligibility for student financial aid:** Many borrowers choose to return to school; however, after defaulting, you are not eligible to receive student financial aid. To renew your eligibility after you default on a federal student loan, you must make six satisfactory payments (see other side), then provide the school you plan to attend with a written request for reinstatement of financial aid eligibility.

You must continue to make satisfactory payments on your loan while you are in school. You must also request reinstatement of your financial aid eligibility each academic year. If you miss a payment, or make a late payment after receiving reinstatement, you will **not** qualify for reinstatement again.

**4. Consolidate your debt:** Consolidation allows you to borrow a new loan to repay your existing student loan debt. Consolidation may allow you to repay your debt over a longer period of time, resulting in lower monthly payments, but greater total debt.

You should begin the process of consolidating your debt by making at least three satisfactory payments (see below). Lenders may have different procedures for consolidating defaulted loans, so ask about application procedures.

Consolidation may not be your best option. Ask the consolidating lender about your payment options, interest rates, and eligibility criteria. You should fully evaluate your options, including paying the loan in full with a lump sum payment, rehabilitating the loan, or simply continuing to make payments to the collector of the loan.

If you consolidate your defaulted loan, the Missouri DHE Student Loan Program will assess collection costs, in the amount of 18.5 percent of your outstanding principal and interest balance, to your account.

## What are satisfactory payments?

To be considered "satisfactory," your payments must be:

- consecutive,
- voluntary (not obtained through wage garnishment, Federal Treasury offset, federal or state tax offset, etc.),
- full
  1. a "reasonable and affordable payment," documented in writing and based on your income and debts, or
  2. the greater of \$50 or the minimum payment to pay your debt in full within 10 years, on time (received within 15 days of the payment due date), and monthly.

Contact the Missouri DHE Student Loan Program or the collection agency assigned to your account to determine **your** satisfactory payment!

## More Information

If you have questions about the contents of this publication, or about planning and paying for college, contact the MDHE Information Center at (800) 473-6757, option 1; (573) 751-3940; or [icweb@dhe.mo.gov](mailto:icweb@dhe.mo.gov). You can also visit our web site at [www.dhe.mo.gov](http://www.dhe.mo.gov).